GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0304		**Title:**	Keep our kids here tax credit
Primary Sponsor:	Brown, Roy		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$0	$23,424	$33,682	$34,331
Revenue:				
General Fund	$0	($273,900)	($1,321,500)	($3,827,500)
Net Impact-General Fund Balance:	$0	($297,324)	($1,355,182)	($3,861,831)

Description of fiscal impact: This bill would create a tax credit for employers who hire recent graduates of Montana colleges and universities and pay part of these employees' student loans. The reduction in general fund revenue depends on the number of credits claimed; potential credits are about $38 million per year. This fiscal note assumes that credit use will grow the first three years to 5% of the potential amount, nearly $2 million, in FY 2013.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow an employer to take a credit against individual income tax or corporate license tax for making payments of at least $500 on the student loans of an employee who received an associates or bachelors degree from a Montana college or university in the previous three years. The credit would equal the amount the employer pays, with a maximum of $5,000. If a taxpayer claimed a credit greater than their tax liability for the year, the excess would not be refunded but could be carried forward indefinitely.
2. The employee would not be subject to state income tax on the loan repayment. Tax on the loan repayment proposed by this bill is not included HJR2. Therefore, exempting the loan repayment from tax has no impact on revenue, as estimated in HJR2.
3. The credit would be available for tax year 2010, for employees who received a degree in 2009 or later.

4. The bill gives employers a small incentive to offer loan repayment as a benefit. While the credit would reimburse an employer for loan payments, the employer would forgo interest on the amount paid from the time the payments are made to the time the employer files their tax return. However, the bill gives recent graduates a significant incentive to offer to work for a lower salary or make other concessions to a potential employer in exchange for the employer making payments on their student loans.
5. In FY 2006, Montana colleges and universities granted about 6,900 associates and bachelors degrees (Digest of Education Statistics, U.S. Department of Education). The number of new graduates is assumed to be 6,900 per year through 2013.
6. About 70% of graduates of the Montana university system have student loans when they graduate (Montana Guaranteed Student Loan Program). This fiscal note assumes that 70% of graduates of all Montana colleges and universities will have student loans.
7. A survey of Montana University System graduates in 2002 and 2003 found that 70% remained in the state. This fiscal note assumes 70% of graduates of all Montana colleges and universities will stay in the state.
8. In 2010, employers could claim the credit for employees who graduated in 2009. In 2011, employers could claim the credit for employees who graduated in 2009 or 2010. In 2012 and later years, employers could claim the credit for employees who graduated in one of the three previous years.
9. Each year, there will be 3,381 people (70% x 70% x 6,900) who graduated from Montana colleges and universities in the last year for whom the credit could be claimed.
10. According to the Bureau of Economic Analysis, private employment accounted for 81% of total employment in Montana in 2007. Assuming that the same percentage of recent graduates are employed at private firms, there will be 2,739 people (81% x 3,381) that will be employed where the employers can claim this credit.
11. About 8% of persons who file a resident income tax return each year do not file a return the next year. About 1% of adults die each year (2006 Montana Vital Statistics Annual Report), so that about 7% move out of state or leave the labor force. The same number or slightly more move to the state each year, but few of these people will be recent Montana graduates. Thus, 93% of employees for whom the credit could be claimed in one year will still be working in Montana the next year.
12. Each year, from 2011 on, there will be 2,547 people (93% x 2,739) who graduated from Montana colleges and universities two years previously for whom the credit could be claimed. Each year, from 2012 on, there will be 2,369 people (93% x 2,547) who graduated from Montana colleges and universities three years previously for whom the credit could be claimed.
13. The following table shows potential credits that could be claimed beginning with 2010:

	Eligible Recent Graduates							
Year	**1 year ago**	**2 years ago**	**3 years ago**	**Total**		**Max Credit**		**Potential Credits**
2010	2,739			2,739	×	$5,000	=	$13,695,000
2011	2,739	2,547		5,286	×	$5,000	=	$26,430,000
2012	2,739	2,547	2,369	7,655	×	$5,000	=	$38,275,000

14. Use of this credit is likely to be low initially. How much it grows over time depends on whether employers find the credit useful for attracting new employees and the extent to which recent graduates find creative ways to have the credit taken for them. (See technical note 3.) This fiscal note assumes that 2% of potential credits will be taken for 2010, 5% of potential credits will be taken for 2011, and 10% of potential credits will be taken for 2012.
15. To claim a credit for an employee, the employee must be working for the taxpayer at the end of the year. Because of the chance that an employee would quit before the end of the year, taxpayers would be unlikely to change their estimated payments in anticipation of claiming this credit. Income and corporation tax revenue would be reduced when taxpayers file their returns after then end of the year.

Thus, the first reduction in state revenue will be in FY 2011. The following table shows revenue reductions for FY 2011 through FY 2013:

Tax Year	Fiscal Year	Potential Credits	% Claimed	Revenue Reduction
2010	2011	$13,695,000	2%	$273,900
2011	2012	$26,430,000	5%	$1,321,500
2012	2013	$38,275,000	10%	$3,827,500

16. Administering the credit in this bill would require the department to process an additional credit form, to track both employers claiming the credit and employees for whom the credit is claimed, and to track credit carryforwards indefinitely. To do this, the department would need an additional 0.5 FTE auditing technician, with annual salary of $15,248 and benefits of $10,104. Annual operating costs would be $7,696, and one-time costs to set up a new employee would be $4,900. An annual inflation factor of 2.5% has been applied to personal services for FY 2012 and FY 2013. Credits would first be claimed on returns filed in the second half of FY 2011, so half of a year's personnel and operating costs and all of the setup costs would be incurred in FY 2011. Form creation costs of $2,000 would also be incurred in FY 2011. Changes to the department's data processing system would be made under the software vendor's annual maintenance contract with testing by department employees. There would be no additional monetary cost, but resources would be taken from other tasks.

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
FTE	0.00	0.50	0.50	0.50
Expenditures:				
Personal Services	$0	$12,676	$25,986	$26,635
Operating Expenses	$0	$5,848	$7,696	$7,696
Equipment	$0	$4,900	$0	$0
TOTAL Expenditures	$0	$23,424	$33,682	$34,331
Funding of Expenditures:				
General Fund (01)	$0	$23,424	$33,682	$34,331
Revenues:				
General Fund (01)	$0	($273,900)	($1,321,500)	($3,827,500)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($297,324)	($1,355,182)	($3,861,831)

Technical Notes:

1. This bill allows an employer to claim the credit only if the recent graduate has been employed for 9 months during the year. Most degrees are awarded in May or June. This would prevent employers from claiming the credit for most new graduates in the year they graduate.
2. The recapture provisions would require the Department of Revenue to track employers who take the credit and the employees who are the basis of the credit for 15 to 20 years.

3. There appears to be opportunity for abuse of this credit, with the potential for recent graduates or their families to create nominal employment relationships for the purpose of claiming the credit. The Department of Revenue would attempt to limit such abuse through rules and auditing of credit claims.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*